AGRICULTURE

<Biomass R&D Subsidies
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BIOMASS R&D SUBSIDIES

Background

As part of his “Climate Change Budget,” the President proposes a repackaged initiative to boost subsidies for converting crops, trees, and other types of “biomass” into fuels, chemicals and electricity.

The subsidy initiative will be reflected in an increase of a quarter of a billion dollars over last year’s levels. The lion’s share of the increase goes to the Department of Agriculture: $115 million in discretionary spending ($44 million increase from fiscal year 2000) and up to $150 million in new mandatory spending. USDA’s Commodity Credit Corporation would provide new and expanded farm price support entitlement payments to ethanol and other biomass producers. Payments would be made on a portion of the increase in agricultural commodities purchased for expanded bioenergy production. USDA would also provide rural development grants to rural electric cooperatives to develop pilot projects to demonstrate small scale biomass fuel generation; grants for technical assistance to cooperatives for processing and marketing biobased products; and loans for facilities and operating dollars for organizations doing biobased production to commercially develop biomass refineries to compete with coal, oil and gas.

Other USDA elements include: the Agriculture Research Service would give grants to develop biobased materials from commodities and bioproducts, and convert biomass to energy; payments to farmers to reduce greenhouse gases from methane gas emissions from livestock; increase the Forest Service research budget on faster growing trees and the use of small trees for commercial biobased products.

The Department of Energy [DOE] would get a $49 million increase (up from $125 million in fiscal year 2000) to continue programs of the past, including the development of waste products such as corn stalks for use as a feedstock. Also, research would be continued on promoting the integration of biomass gasification systems with modern gas-turbine/steam turbine generation systems.

Key Points

- Since 1978, the Federal Government has spent more than $1.2 billion on biomass research. Over time, less and less of that spending has funded basic research and more and more has subsidized commercial development and demonstrations.

- The $1.2 billion in subsidies have had little impact on reducing U.S. dependence on foreign sources of energy. Today, biomass currently provides only 4 percent of the energy produced in the United States.

- The Congress has already given the private sector the appropriate tools to determine whether biomass is an energy source worthy of investment. In 1999, Congress extended the wind, solar and biomass tax credit, designed specifically to encourage the private sector to develop alternative fuel sources in the test of the market.

- In addition, the President has proposed in his budget a package of biomass related tax credits designed to promote the use of biomass in the production of electricity.

- The Federal Government choosing fuel sources does not work. The practical effect of the Government funding the current program has been that, after 20 years, it is still trying to "making biomass a viable competition to fossil fuels."

- By providing an increase in spending to USDA, the administration is promoting duplication and waste. DOE is the agency charged with energy research, not USDA. In fact, the House recognized this problem last year and directed DOE to provide a report with its 2001 budget submittal "which identifies each Federal agency that provides funding related to producing power or fuels from biomass. The report should include recommendations that eliminate duplication."

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- According to a July 1997 report, GAO found that none of the approximately $75 million provided in fiscal year 1998 for biomass/bio-energy research at DOE was going to be spent on basic research.

- Concern over the nature of biomass related spending was reflected in the House appropriations Subcommittee on Energy and Water's fiscal year 2000 report:
  "The Committee continues to be concerned over the years that, the Department has placed a higher priority on providing funds to corporations and other private interests [with monies for non-basic research projects] . . . These efforts have come at the expense of a more proper role for government; fostering peer-reviewed research which could lead to cutting edge discoveries in plant research, chemical and materials sciences and other areas fundamental to development of these technologies."

FARM INCOME PAYMENTS AND SUPPORT

Background

As part of the series of additional agriculture spending initiatives under the name of "Farm Safety Net," the President is proposing a major spending component to subsidize farm incomes. The other major components are risk management, or crop insurance and farm conservation and environmental subsidies. The total cost of the overall farm package is $11.5 billion for fiscal years 2000-2002.

The key elements of the farm income support proposal are:

< A new mandatory Supplemental Income Assistance Program [SIAP] to provide payments to eligible producers of wheat, feed grains, rice, cotton, and oil seeds for the 2000 and 2001 crop years. The payment would be made if a farmer's projected gross income, including other government payments, falls below 92 percent of his preceding 5-year average. The payment would be crop specific and would be based on actual production rather than a historical average. The payment could not exceed $30,000 (including fixed payments received under the farm bill). The estimated cost: $2.464 billion in fiscal year 2001 and $2.5 billion in fiscal year 2002.

< A freeze of the current guaranteed available price floors under the marketing assistance loan program, costing $500 million in fiscal year 2001.

< Extending the dairy price support program, at a cost of $150 million in each of fiscal 2001 and fiscal year 2002.

Key Points

< There is little consensus on what Federal policy should be on farm income support. Absent this, efforts to "open up the farm bill" with such significant policy changes should be addressed in the broader context of the farm bill.

< The Farm Safety Net proposals spend more money on farm programs, without addressing the real problems facing farmers today: too much regulation, insufficiently open markets, insufficient tax relief.

< The SAIP proposal would exclude many farmers currently receiving fixed payments under the 1996 farm bill.

< The SAIP payment formula is an artificial construct which would begin a return to subjecting farmers to Washington dictates.

CROP INSURANCE/RISK MANAGEMENT

Background

On February 2, Secretary Glickman, as part of his “Farm Safety Net” package, unveiled the administration’s risk management proposal for fiscal year 2001 – at a cost of $1.02 billion. The proposal has several elements. Major ones include:

< Continue the expiring level of discount on crop insurance premiums paid by farmers begun in fiscal year 1999 (this year, the administration assumes the cost to be about $640 million).

< $100 million in new spending to fund insurance policies that would cover multiyear losses of crops.

< $100 million in new spending for a livestock protection program, which seeks to expand the crop insurance program to include cattle.

< A $110-million expansion of the program in which farmers who are hit by disaster but not currently covered by the crop insurance program receive payments from that program.

< A $40-million risk management education initiative and $30 million in additional funds for product research and development.

Key Points

< In fiscal year 2000, the Republican-led House of Representatives adopted legislation that included reforms and modifications to the crop insurance program. The Senate is currently considering legislation to reform the program as well.

< The legislation was made possible by the inclusion of $6 billion in last year’s budget resolution and approved by Congress.

< A livestock pilot program was included the legislation that moved through the House last year.

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< USDA’s inspector general has said there is continuing “conflict of interest problems in the [crop insurance] program . . . The conflicts involved policyholders, sales agents, [and] loss adjustors . . . For example, in our ‘Fresh Market Tomatoes’ report, . . . we disclosed an instance where the producer’s employee received over $280,000 in commissions over 2 crop years while acting as a subagent selling insurance to his employer. . . Our current audit field work continues to disclose conflicts of interest as potential problems.” *(Letter to Chairman Kasich, Majority Leader Armey, December 1999*)

FARM CONSERVATION AND ENVIRONMENTAL SPENDING

Background

The President's budget proposes $1.28 billion in his fiscal year 2001 budget in new Federal monies to farmers for use as incentives to carry out environmental measures. The major spending initiatives are the following:

< **Conservation Security Program** – A new USDA entitlement that will provide $600 million a year in mandatory spending to pay farmers and ranchers who carry out a range of environmental practices (based on legislation introduced last year by Sen. Harkin, but never considered by the Senate Agriculture Committee).

< **Wetlands Reserve Program –** A $213-million fiscal year 2001 increase of an existing mandatory program to increase current enrollment by 210,000 acres above the current 975,000 acre cap.

< **Conservation Reserve Program [CRP] –** A $125-million increase of an existing mandatory program by which farmers receive annual rental payments to take land out of production. The proposal attempts to add 3.6 million acres to the existing 36 million acre cap.

< **Environmental Quality Incentives Program [EQIP] –** A $125-million increase to provide $325 million annually to farmers and ranchers to establish animal waste facilities, pest control, and habitat restoration (also a part of the administrations' Clean Water Action Plan).

< **Farmland Protection Program –** A lapsed program to be reestablished at $65 million annually to provide money to state, local and tribal governments to purchase easements to protect farms from "sprawl" (also a part of the administrations' Lands Legacy initiative).

< **Wildlife Habitat Incentives Program [WHIP] –** Also a lapsed program to be reestablished at $50 million annually to provide money to farmers and landowners, again, for habitat restoration.

< **Other –** $110 million for other technical, educational, and financial assistance to farmers.

Key Points

< The Conservation Reserve Program currently only has 31 million acres enrolled – 5 million below the legal limit. There is no need to expand the program.

< The Farmland Protection Program was proposed in last year's budget, but Congress took no action on the proposal. In addition, the monies provided for in the farm bill have been

exhausted. The need to replenish the program would be better examined in the context of the next farm bill.

< A new program under the initiative – the Conservation Security Program – is very similar to existing programs. For example, the White House press release says that the conservation security program is designed to provide " . . . annual payments to farmers and ranchers who engage in conservation practices . . . . [such as] windbreaks." Later in the press release, in describing the expansion of the existing Conservation Reserve Program, it says it "provides farmers with technical and financial assistance, including . . . payments, in exchange for . . . implementing conservation practices [including] windbreaks."

< Congress is currently attempting to address needs of farmers on two fronts: how to respond to the concerns of farm groups pressing for additional Federal aid, and considering legislation which would provide farmers with the most effective risk management tools.

< The President was satisfied with Congress' efforts in the conservation area in the 1996 farm bill. When he signed it he said: "I wholeheartedly endorse the bill's conservation provisions." In fact, when the conferees finished their work on the farm bill, the President said: "I am pleased that the bill provides significant funds for conservation and environmental enhancement programs."

< The farm bill established a set of programs – and funding levels – to address environmental concerns. A change in the size of – and need for – those programs should be examined in the context of the next farm bill.

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< In 1993, the Vice President's National Performance Review said: "A bewildering array of laws, regulations, and interagency jurisdictions frustrates farmers' efforts to comply with existing environmental and conservation laws and regulations. In pesticides alone, [farmers have to deal with] three Federal agencies, the Department of Agriculture [USDA], the Environmental Protection Agency [EPA], and the Food and Drug Administration [FDA]."

< As far back as February 1995, the General Accounting Office said that "no comprehensive data exists to precisely identify the amount of CRP land and other cropland that is environmentally sensitive and should be kept out of production." This is still true today.